

Message Text

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AMEMBASSY JIDDA

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TAGS: EGEN, ECON, ELAB, EAGR, ENRG, EFIN, IR

SUBJ: ECONOMIC HIGHLIGHTS OF SHAH'S KAYHAN INTERVIEW,
OCTOBER 24, 1976

1. BEGIN SUMMARY: THE SHAH, IN HIS KAYHAN INTERVIEW, DEALT WITH A NUMBER OF IMPORTANT ECONOMIC ISSUES. ON THE SUBJECT OF LABOR PRODUCTIVITY, PERHAPS THE CENTERPIECE OF THE ECONOMIC PORTION OF HIS REMARKS, THE SHAH SAID THAT THE SUDDEN INFUSION OF A GREAT DEAL OF MONEY INTO THE ECONOMY HAS LED TO IMBALANCE IN THE SUPPLY AND DEMAND FOR LABOR.

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WORKERS WERE DEMANDING HIGHER WAGES YET SOME OF THESE WERE

CLEARLY NOT WORKING HARD ENOUGH. THE NATION, HE SAID, WOULD NOT TOLERATE "A PARADISE OF SLOTH AND INDOLENCE." PREDICTABLY, BUSINESS REACTION TO HIS REMARKS ON LABOR HAS BEEN UNIFORMLY FAVORABLE. THE SHAH CONCEDED THAT IRANIAN COSTS OF PRODUCTION IN AGRICULTURE AND INDUSTRY EXCEEDED INTERNATIONAL LEVELS BUT GREATER TECHNOLOGY AND FERTILIZER INPUTS WOULD HELP THE SITUATION. SPEAKING OF GOVERNMENT EXPENDITURES, THE SHAH SAID THAT THE COUNTRY WOULD CONTINUE TO ECONOMIZE AND REDUCE ALL UNNECESSARY EXPENDITURES. ANY INCREASE IN OIL INCOME BEYOND THAT FORECAST WOULD BE USED TO MEET THE BUDGETARY DEFICIT, ALTHOUGH THE GOVERNMENT DOES HAVE PLANS FOR BUYING INTO OTHER MAJOR INTERNATIONAL COMPANIES. HE WAS NOT DISTURBED OVER CAPITAL FLIGHT OF PERHAPS \$2 BILLION IN THE LAST SIXTEEN MONTHS AND FELT THAT THIS HELPED TO COOL THE ECONOMY. THE PRICE OF OIL WILL DEFINITELY BE INCREASED AGAIN, HE SAID, AND THE WORLD HAS PREPARED ITSELF FOR THIS. ON HOUSING, MORE CONSTRUCTION IS THE ANSWER TO THE SHORTAGE BUT SAID THE GOVERNMENT IS CONSIDERING PENALIZING OWNERS WHO SPECULATE IN RENTS. END SUMMARY.

2. LABOR PRODUCTIVITY AND "SLOTH AND INDOLENCE": IF THERE WAS ANY LEITMOTIV IN THE SHAH'S FAR RANGING KAYHAN INTERVIEW, CERTAINLY IT WAS THE THEME ON THE NEED FOR GREATER LABOR PRODUCTIVITY. THE SHAH ACKNOWLEDGED THAT IRAN HAD EXPERIENCED A PERIOD OF TRANSITION IN THAT A GREAT DEAL OF MONEY ARRIVED AT A TIME WHEN IRAN DID NOT HAVE THE MEANS OF SPENDING IT WISELY. AS A RESULT, WASTE AND UNPRODUCTIVE LABOR WERE EVIDENT IN IRANIAN SOCIETY. RECOGNIZING THAT IRAN'S MANPOWER SHORTAGE HAS LED TO INFLATIONARY WAGE DEMANDS AND GROWING IMBALANCE IN THE SUPPLY AND DEMAND FOR LABOR, THE SHAH THOUGHT THAT THIS SITUATION HAD LED SOME IRANIANS TO PUT FORWARD LESS THAN THEIR FULL ABILITIES. REMARKING THAT HE FOUND IT "UN-ACCEPTABLE" AND "INTOLERABLE" IN CONTEMPORARY IRAN THAT WORKERS DEMAND INCREASINGLY HIGHER WAGES BUT YET DO NOT WORK HARD ENOUGH, HE ASSERTED TWICE THAT THE NATION WOULD NOT PERMIT "A PARADISE OF SLOTH AND INDOLENCE." THE SHAH THOUGHT THAT WAGES AND SALARIES IN IRAN WERE DISPROPORTIONATELY HIGH WHEN VIEWED IN THE CONTEXT OF PER CAPITA GNP. LIMITED OFFICIAL USE

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WHILE WEST GERMANY'S PER CAPITA INCOME IS \$5,000 (NEARLY THREE TIMES THAT OF IRAN), NEVERTHELESS WAGES AND SALARIES IN IRAN IN A NUMBER OF PROFESSIONAL CATEGORIES WERE EQUIVALENT TO WEST GERMANY'S. THIS SITUATION, HE SAID, WOULD HAVE TO CHANGE OVER TIME. THE SHAH RETURNED TO THE LABOR PRODUCTIVITY THEME IN HIS MESSAGE TO THE RASTAKHIZ PARTY CONGRESS TWO DAYS LATER, AS DID THE PRIME MINISTER. "WORKERS WHO ARE LAZY," SAID THE PRIME

MINISTER, "ARE TRAITORS." COMMENT: THE REACTION TO THE SHAH'S REMARKS ON LABOR WHICH THE EMBASSY HAS RECEIVED FROM THE BUSINESS COMMUNITY, PARTICULARLY FROM IRANIAN ENTREPRENEURS, HAS BEEN UNIFORMLY FAVORABLE, ALMOST ECSTATIC. IT HAS BEEN AN INCONTESTABLE FACT THAT WAGE AND CONDITIONS OF WORK DISPUTES IN IRANIAN INDUSTRIAL ESTABLISHMENTS HAVE ALMOST ALWAYS BEEN RESOLVED BY THE MINISTRY OF LABOR IN FAVOR OF THE WORKERS OVER THE LAST TWO OR THREE YEARS. INDUSTRIALISTS HERE BELIEVE THAT THIS PATTERN HAS EXACERBATED THE PROBLEM OF LABOR DISCIPLINE. IT IS UNCLEAR WHY THE MINISTRY HAS CONSISTENTLY DECIDED IN FAVOR OF THE WORKERS EVEN IN THOSE CASES WHERE MANAGEMENT HAS CLEARLY THE BETTER CASE; E.G., THE RECENT MONTH-LONG ILLEGAL STRIKE AT THE GOODRICH PLANT. SOME SOURCES SAY THE PROBLEM CAN BE TRACED TO THE MINISTRY'S FUNDAMENTAL MISREADING OF THE SHAH'S REAL WISHES IN THIS AREA. IN ANY CASE, BUSINESSMEN SEE THE SHAH'S REMARKS --WIDELY SHARED BY IRANIANS AT VIRTUALLY ALL LEVELS--AS BEING A CLEAR MESSAGE TO THE GOVERNMENT; VIZ, THERE SHALL IN THE FUTURE BE GREATER LABOR PRODUCTIVITY AND A MODERATION IN WAGE AND SALARY DEMANDS. WHEN ASKED WHAT IMMEDIATE AND CONCRETE STEPS BY WAY OF IMPLEMENTATION THEY FORESAW, THESE SAME BUSINESSMEN ARE SLIGHTLY LESS CERTAIN AS TO WHAT THE IMMEDIATE FUTURE HOLDS. WE HAVE ONE REPORT THAT A CONSISTENTLY TROUBLESOME WORKER CAN NOW BE DISCHARGED WITH TWO WEEKS' SEVERANCE PAY AND, IN FLAGRANT CASES, WITH NO PAY AT ALL. NEVERTHELESS, THERE SEEMS TO BE A GENERAL FEELING THAT AT LEAST FOR THE MOMENT THERE IS BOUND TO BE SOME IMPROVEMENT ON THE LABOR DISCIPLINE FRONT AND PROBABLY ALSO A TEMPERING OF WAGE DEMANDS. NO ONE BELIEVES, HOWEVER, THAT A MORE EVEN-HANDED ENFORCEMENT OF THE LABOR CODES BY THE MINISTRY OF LABOR WILL HAVE ANY REAL EFFECT OVER THE MEDIUM TERM

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ON THE STRONG DEMAND PULL FOR LABOR THAT SO CHARACTERIZES IRANIAN SOCIETY TODAY.

3. HIGH COST PRODUCTION: THE SHAH DEALT CANDIDLY WITH THE PROBLEM OF HIGH COSTS OF IRAN'S AGRICULTURAL AND INDUSTRIAL OUTPUT. HE NOTED THAT THE PRICES OF AGRI-

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CULTURAL RAW MATERIALS NEEDED FOR EDIBLE OIL PRODUCTS, FOR EXAMPLE, AND FOOD GRAINS WERE HIGHER ACROSS THE BOARD THAN INTERNATIONAL PRICES. HE THOUGHT THAT THIS WAS BASICALLY AN UNHEALTHY SITUATION WHICH WOULD HAVE TO CHANGE IF A GENERAL DECLINE IN IRANIAN AGRICULTURE WAS TO BE AVOIDED. HE SAID THAT MORE TECHNICIANS FOR THE RURAL AREAS AND MORE FERTILIZER WOULD PROVIDE THE ANSWER. HE CONCEDED THAT ABOUT THE BEST IRAN COULD HOPE FOR IN THE SHORT RUN WOULD BE A PRICE LEVEL FOR IRANIAN-PRODUCED AGRICULTURAL AND INDUSTRIAL PRODUCTS AT ABOUT THE INTERNATIONAL LEVEL.

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4. GOVERNMENT EXPENDITURES AND INVESTMENT ABROAD: THE SHAH CONFIRMED KAYHAN CORRESPONDENT'S OBSERVATION THAT

IRAN'S INCOME FROM OIL MIGHT BE BETWEEN \$4 AND \$5 MILLION HIGHER (PRESUMABLY CURRENT IRANIAN FISCAL YEAR) THAN EARLIER FORECAST. NEVERTHELESS, THIS ADDED REVENUE WOULD NOT BE "BURNED" AS BEFORE; THE BUDGET DEFICIT OF \$3 BILLION "WOULD HAVE TO BE COVERED." HE WENT ON TO SAY THAT THE GOVERNMENT DOES HAVE PLANS FOR BUYING INTO OTHER MAJOR INTERNATIONAL COMPANIES. HE THOUGHT THAT IT WAS A WISE MOVE TO INVEST IN COMPANIES SUCH AS KRUPP AND THAT IRAN, AS A MAJOR INVESTOR ABROAD, IS IN FACT "RESPECTED AND VALUED BY MAJOR INDUSTRIAL COUNTRIES." THE SHAH SAID THAT IRAN'S EARLIER INTENTION TO BUY INTO OCCIDENTAL PETROLEUM OF THE U.S. FELL THROUGH BECAUSE "THEY STIPULATED CONDITIONS THAT WERE TOTALLY UNACCEPTABLE TO US" (I.E., OFFERING TO SELL NON-VOTING EQUITIES ONLY). IN ANY CASE, THERE WOULD BE NO REPETITION OF THE MISTAKES OF THE PAST. IRAN, HE SAID, WOULD ECONOMIZE AND CUT DOWN ON ALL UNNECESSARY EXPENDITURES; "WE SHOULD NOT ALLOW THE SAME VULTURES TO GATHER... TO TELL US... WHAT TO DO WITH OUR MONEY." COMMENT: THE EMBASSY FINDS THE SHAH'S REMARKS ON THE NEED FOR IRAN TO HUSBAND ITS RESOURCES AS ESSENTIALLY CONFIRMING WHQXYIRES, PARTICULARLY IN GOVERNMENT CONTRACTS. THE SHAH'S REMARKS MAKE IT PLAIN THAT THIS TREND WILL CONTINUE AND VERY LIKELY INTENSIFY AS THE PLAN AND BUDGET ORGANIZATION FLEXES ITS NEWLY REGAINED POWERS OVER MINISTERIAL EXPENDITURES. AS FAR AS FOREIGNERS DOING BUSINESS WITH IRAN WAS CONCERNED, THE MESSAGE WAS CLEAR -- IRAN IS NO LONGER THE EASY MARK IT WAS TWO YEARS AGO.

5. CAPITAL FLIGHT:

THE SHAH DISPLAYED A REMARKABLY RELAXED VIEW ON THE MATTER OF CAPITAL FLIGHT, CONCEDED THAT THE FIGURE OF \$2 BILLION SENT ABROAD IN THE PAST SIXTEEN MONTHS "MIGHT BE CORRECT." HE THOUGHT THAT THIS SHOULD NOT BE A CAUSE FOR CONCERN. HE THOUGHT THERE WAS SOME CONNECTION BETWEEN THE REMISSION OF MONEY ABROAD FOR PROFITS AND THE INABILITY OF SOME LIMITED OFFICIAL USE

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PEOPLE TO MOVE AHEAD WITH THEIR DEVELOPMENT PROJECTS BECAUSE OF SUCH BOTTLENECKS AS PORT CONGESTION. HE DID NOT THINK THAT THE CAPITAL FLIGHT COULD BE ATTRIBUTED TO ANY "STAGNATION" IN THE ECONOMY. HE SAW NOTHING WRONG IN IRAN'S INVESTING ABROAD AND SEEMED TO BELIEVE THAT THE CAPITAL FLIGHT CONTRIBUTED TO A NEEDED COOLING OF THE ECONOMY. EVERY DAY SEES NEW APPLICATIONS FOR THE ESTABLISHMENT OF INDUSTRIAL VENTURES, HE SAID, AND THE RATE OF DOMESTIC INVESTMENT IS HIGH. COMMENT: THE \$2 BILLION CAPITAL FLIGHT FIGURE SQUARES WITH ESTIMATES

THE EMBASSY HAS RECEIVED.A SIGNIFICANT PORTION OF THIS PROBABLY WENT INTO PRIVATE REAL ESTATE ACQUISITIONS IN EUROPE AND THE U.S., AS SKY-ROCKETING TEHRAN LAND VALUES MADE REAL ESTATE PURCHASES ABROAD RELATIVELY MORE ATTRACTIVE. HOWEVER, THE EMBASSY SUSPECTS THAT SOME PORTION OF THE \$2 BILLION FIGURE, IMPOSSIBLE TO QUANTIFY, SOUGHT REFUGE ABROAD AS A CONSEQUENCE OF TWO DEVELOPMENTS WHICH UNDENIABLY HAVE FRIGHTENED WEALTHIER IRANIAN BUSINESSMEN -- PRICE CONTROL ENFORCEMENT AND LOWER PROFIT MARGINS.THE EMBASSY HAS ALSO HEARD ONE OR TWO REPORTS THAT THE GOVERNMENT'S NON-PAYMENT OF BILLS OWED TO SOME WEALTHY IRANIAN BUSINESSMEN IS A CALCULATED MOVE TO FORCE THESE PEOPLE TO THE WALL FINANCIALLY SO THAT, IN ORDER TO REMAIN LIQUID DOMESTICALLY, THEY WILL BE COMPELLED TO REPATRIATE CAPITAL STASHED ABROAD.

6. PRICE OF OIL: ASKED WHETHER THE PRICE OF OIL, "BEING TOO LOW," SHOULD BE INCREASED AGAIN, THE SHAH REPLIED, "CERTAINLY. THIS IS QUITE OBVIOUS. THE PRICE OF OIL WILL DEFINITELY BE INCREASED AGAIN. DEFINITELY. AND THE WORLD HAS ALREADY PREPARED ITSELF FOR IT."

7. HOUSING: RESPONDING TO KAYHAN'S OBSERVATION THAT THERE ARE SAID TO BE 45,000-50,000 APARTMENTS HELD VACANT IN TEHRAN IN ANTICIPATION OF SPECULATIVE RUN-UPS IN RENTS, THE SHAH SAID THE GOVERNMENT, AT HIS REQUEST, WAS LOOKING INTO THE POSSIBILITY OF PENALIZING THE OWNERS FINANCIALLY SO AS TO FORCE THEM TO RENT AT JUST PRICES. BASICALLY, HOWEVER, HE SAID THAT THE ANSWER LAY IN MORE HOUSING CONSTRUCTION. THE SHAH NOTED THAT THERE IS MUCH WASTAGE OF CEMENT AND STEEL IN CONSTRUCTION, LIMITED OFFICIAL USE

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PRICES ARE TOO HIGH AND LABOR PRODUCTIVITY TOO LOW AS A CONSEQUENCE OF TOO LITTLE MECHANIZATION IN CONSTRUCTIN WORK. WHILE THE GREATEST NEED WAS FOR HOUSING WITHIN THE MEANS OF THE VAST MAJORITY OF IRANIAN FAMILIES, HE HAD NO OBJECTION TO LUXURY HOUSING PER SE. COMMENT: THE SHAH DID NOT HINT AT FURTHER CONTROLS ON LAND, THUS PUTTING TO REST FEARS WHICH HAD BEGUN TO SURFACE THAT SOME KIND OF URBAN LAND NATIONALIZATION WAS IMMINENT. HELMS

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